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C O N F I D E N T I A L QUITO 002571

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PASS TO OPIC AND EXIMBANK

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TAGS: [EAIR](#) [EFIN](#) [EINV](#) [PGOV](#) [EC](#)
SUBJECT: CORREA CHALLENGES AIRPORT CONCESSIONS

REF: A. QUITO 2167
[1](#)B. QUITO 2168
[1](#)C. QUITO 2556

Classified By: Ambassador Linda Jewell. Reason: 1.4 B and D.

[1](#)1. (U) Summary: President Correa has challenged two airport concessions run by private operators in Quito and Guayaquil, and asserted the federal government should receive a share of their earnings. The Quito airport is operated by a U.S.-Canadian-Brazilian joint venture and receives the majority of its financing from U.S. lenders OPIC and Ex-Im Bank. At this time it is not clear what steps, if any, the Correa administration will take regarding the airports, and Correa seems to have toned down his rhetoric after meeting with Quito Mayor Paco Moncayo. The Ambassador also met with Moncayo to discuss how the Embassy could best support the U.S. investment. End Summary.

Correa Criticizes Airport Concessions, Asks for a Share

[1](#)2. (U) On October 26 President Correa complained to the press that municipal airport concessions operated by private consortiums in Quito and Guayaquil were highway robbery ("un atraco"). He claimed the new airport being built in Quito, in particular, is being financed with municipal money but complained that profits will go to the private U.S.-Canadian-Brazilian consortium Quiport that is charged with building and operating the project. Correa subsequently asserted that the Quito and Guayaquil airports are the only two profitable airports in Ecuador and that their revenue is not available for the federal government to support Ecuador's smaller airports. As such, he said the government expects a share of their profits. He has continued to sporadically criticize the airport concessions.

[1](#)3. (U) Correa's statements provoked a number of reactions by other Ecuadorian officials. On the one hand, the mayors of Quito and Guayaquil responded to Correa's attacks by asserting that the concessions have brought much needed improvements to the airports (in Guayaquil, a new terminal and in Quito, the construction of a new airport and temporary improvements to the existing airport). On the other hand, the Anti-Corruption Committee (CCCC) launched an investigation of the Quito concession contract. In addition, the Inspector General's Office is investigating Quiport and the Superintendent of Companies has visited the Canadian Commercial Corporation. The CCCC in short order issued a statement saying that the contracting process had not been transparent and that the airport lacked key approvals.

[1](#)4. (C) In a November 5 meeting with Capitan Guillermo Bernal,

Under Secretary for Airports and Aviation, Econcouns and econoff asked about the airport concessions. Bernal said only that the GOE wants "a share," since the new airport site, previously held by the Director for Civil Aviation (DGAC), had simply been handed over to the Municipality by a previous central government. However, he said that he did not know what mechanism the GOE would pursue to obtain a share of airport income, saying that that would be determined by the President. Bernal also reasserted arguments made by his predecessor (ref A) that the DGAC had not been consulted in the planning of the project, and that to his knowledge, necessary environmental and financial feasibility studies still had not been conducted.

Quiport Asks for Embassy Assistance

¶15. (SBU) In a meeting November 20 with econ and commercial officers, Quiport CEO Luis Perez asked for U.S. Embassy assistance in helping Quiport inform the GOE about the project, and about the limitations and implications of the GOE's desire for a share of the action. Quiport's lawyer noted that she had requested six meetings with Aviation U/S Bernal, and that each meeting had been canceled.

¶16. (SBU) Regarding Correa's demand that the federal government have a share of the new airport's profits, Quiport says there is no financial room to renegotiate its concession. They noted that \$5 of the current international departure fee reflects a DGAC fee, which the government could raise at its discretion. However, they argued that the current concession contract otherwise does not mandate the payment of fees to the federal government * in fact, the project will not pay income tax or the value-added tax. Furthermore, they noted that any change in the use of the current airport fees would affect the income stream that is dedicated to repaying the project loans, and any such changes would have to be negotiated through the lenders. Quiport does not anticipate making any appreciable profits until its loans are repaid in 2025.

¶17. (SBU) Emboffs urged Quiport to begin a strong media campaign to explain all the positive benefits Quiport is bringing, both with the new airport and by improving the current airport (see para 13). Quiport representatives explained that until now they have deferred to Quito Mayor Paco Moncayo to take the lead on public relations, but that they intended to step up their outreach efforts. In addition, emboffs told Quiport that we would consider how we could most effectively promote a dialogue for them with the GOE.

Ambassador Meets with Quito Mayor

¶18. (C) The Ambassador met with Quito Mayor Paco Moncayo on November 29 to discuss how the U.S. Embassy could best help Quiport. The Mayor said that in his meeting with President Correa, he explained that the new airport's profits will be locked into repaying U.S. lenders for quite some time. This seemed to take the President by surprise. When Moncayo suggested that he speak with the U.S. government, the president reportedly replied that he would think about it. Moncayo feels personally attacked by corruption allegations against the project, and said that Quiport has done a very poor job of media relations. He suggested that the U.S. lenders take a more active role in publicizing the technical aspects of how their loans are granted.

Background on the New Airport

¶19. (U) In the 1990s, the federal government transferred the Quito and Guayaquil airports to municipal governments, including the authority to employ concessions to upgrade or build a new airport. The federal government also transferred land that the DGAC had acquired in the 1970s for the new Quito airport. In 1999 the Quito municipality turned control

of the Quito airport project over to a municipally-controlled entity, Corpaq, which in turned signed a concession agreement with the Canadian Commercial Corporation (CCC), a Canadian government entity, to develop the airport. The CCC then reached agreement with the consortium Quiport, made up of Aecon (a Canadian company), Andrade Gutierrez (Brazilian), and Houston Airport Systems (U.S.) to manage the current airport and build the new one.

¶10. (U) The new Quito project is financed in part by four major international lenders: OPIC (\$200m), Ex-Im Bank (\$64m), the Inter-American Development Bank (\$75m) and the Canadian Commercial Corporation (CCC) (\$15m plus the construction guarantee). The rest of the financing is made up by fees generated by the current airport (\$137m), and Quiport's own equity (74m, or 13% of total costs).

¶11. (U) In a November 9 presentation, Quiport gave emboffs a tour of the new airport and explained the history of the airport. During the course of the presentation, Quiport officials rebutted the assertion by current and previous Under Secretaries for Airports and Aviation that planning for the airport was not well coordinated with aviation authorities. Quiport explained that the DGAC itself chose the new airport site in 1989, precisely because of favorable environmental conditions. After reviewing 10-20 other sites, the DGAC ceded the land specifically with the idea that the Municipality would build the airport. Quiport says it has notified the DGAC of plans during each of the construction phases, and that their relationship with working-level, operational DGAC contacts has been very good.

¶12. (U) Scheduled to open in 2010, the new airport is several kilometers east of Quito and 400 meters lower in altitude than the current airport, which will allow planes to carry larger loads. At 4100 meters, the new airport's runway will be a full kilometer longer than that of the current airport, which would avoid incidents like that of the Iberia A380 that touched down on November 9 on the second third of the current runway, overshooting and nearly careening into nearby housing. Since the new airport is in a rural area and is based on a much larger area of land, urban areas will not be at risk, as is currently the case. The new airport will have a flight approach of 15 to 20 kilometers, compared to the current airport's four and five kilometer approaches. The airport will be equipped with a larger terminal, modern fire and emergency equipment, and more cargo storage than at the present airport, plus room for further expansion, including possibly a second runway. The project also currently employs approximately 600 Ecuadorian workers from the region.

¶13. (U) During the presentation, Quiport officials highlighted some of the improvements they have also made at the new airport, including updates to the existing terminal, five new jetways, re-paving the runway so it can handle heavier planes, building a new control tower, and the purchase of new firefighting equipment.

¶14. (U) One concern about the new airport is that it currently takes about an hour to get there from Quito on congested local roads. Quiport officials say that the municipality is responsible for building a new road, which it also needs because of recent growth in the area between Quito and the new airport. The municipality has two options for building the road: one that is an indirect route, for which the municipality has the right-of-way, and a second more direct route for which it does not have the right-of-way and would have to build two expensive bridges.

Difficult Relations between Quiport and Its Clients

¶15. (SBU) A number of carriers, including several U.S. carriers (ref B), have complained about fee increases imposed after Quiport took over the current airport, and filed a legal challenge to the fee increases that was subsequently rejected. Quiport maintains that the fee increases are less

than what is permitted under their contract and compensates for a number of years when the rates were frozen. This disagreement has led to tense relations between Quiport and some of the carriers, and appears to have provided additional ammunition for some of the new actors who are now investigating the Quiport concession.

COMMENT

¶16. (C) An already complex situation, which had previously been characterized by tensions between a partially U.S.-owned airport operator and U.S. carriers, has taken on a whole new dimension with Correa's dramatic but poorly-defined challenge to the airport concessions. It is difficult to get a good grasp on Correa's motivation, but our best guess is that it is a loose mix of skepticism over private operators running a strategic sector, a desire to secure additional funds for the federal government, and a political challenge to the influential mayors of Quito and Guayaquil.

¶17. (C) We take at face value Bernal's comment that Correa does not want to end the concessions but does want a share for the state. However, we suspect that Correa and his advisors do not understand the complexity of the airport concession contracts and the difficulty of attempting to claim a share for the federal government. The Embassy will work with Quiport and the mayor to educate key Correa advisors on both the complexity of the project and the benefits that it will bring. Meanwhile, Correa has been relatively silent on airport concessions in recent days, other than a surprising statement in China that he supports an undefined Chinese concessionaire to run the Manta airport (ref C). Since the government's attention is now focused on the launch of the new Constituent Assembly, Quiport should have time to work on its media campaign and explain its project to GOE officials.

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